



Town Wide Financial Plan Part II

October 16, 2014

This evening's topics

- Pension
- Health insurance
- OPEB
- North 40 update

Retirement liabilities

<i>Valuation date</i>	<u>Pension</u> 1/1/13	<u>OPEB</u> 6/30/14
Accrued liability	\$ 186,235,650	\$111,075,197
Actuarial value of assets	125,714,763	32,806,387
Unfunded liability	<u>\$ 60,520,887</u>	<u>\$ 78,268,810</u>
MV of assets at 6/30/14	\$ 147,429,854	\$ 35,118,607
FY15 Cost	\$ 6,990,627	\$ 7,391,725

Pension

Town's pension plan

- Defined benefit plan for employees other than teachers
 - In place of Social Security
 - Teachers plan sponsored by the State
- Employees pay 9% of salary plus 2% of salary > \$30,000, with no cap
 - Compares to FICA cost for private sector employees and employers – 6.2% of pay up to \$117,000

Town pension vs. FICA

	Wellesley <u>Pension</u>	<u>FICA</u>
Employee contribution %	9%+(2%>\$30K)	6.20%
Employer cost %	5.74%	6.20%
Maximum annual employee contrib.	None	\$ 7,254
Annual employee contribution at various income levels		
✓ \$60,000	\$ 6,000	\$ 3,720
✓ \$90,000	\$ 9,300	\$ 5,580
✓ \$125,000	\$ 13,150	\$ 7,254
Current average retirement allowance excluding disability retirees	\$ 23,202	\$ 15,622

Pension funding

- Through FY77 – funded on “pay-as-you-go” basis
- 1978 Annual Town Meeting – increased budget to address unfunded past service liability
- Funding sustained through significant budget cuts in early 80’s
- Plan fully funded by end of FY97
- FY98 - FY09 – no contributions by the Town
 - Investment earnings more than sufficient to cover Town’s contribution
- Following 2008 market decline, contributions resumed in FY10

Retirement-related contributions since 1998

<i>(\$ in millions)</i>	FY98 - FY09	FY10 - FY15	Total
Town Contributions	\$ -	\$ 23.0	\$ 23.0
Employee Contributions			
Teachers	\$ 32.5	\$ 26.2	\$ 58.7
Other employees	26.7	19.0	45.7
	\$ 59.2	\$ 45.2	\$ 104.4
Imputed FICA Cost (Town portion)	\$ 40.3	\$ 27.3	\$ 67.6

Pension funding, contd.

- Appropriations to fully fund by 2030 (including Enterprise funds)
 - FY14 \$5.9M
 - FY15 \$7.0M
 - FY16 \$7.3M
- Key assumptions
 - 7% interest rate
 - 5 year asset smoothing with 20% corridor, fresh start in 2013
 - 3.5% annual increase in amortization payment

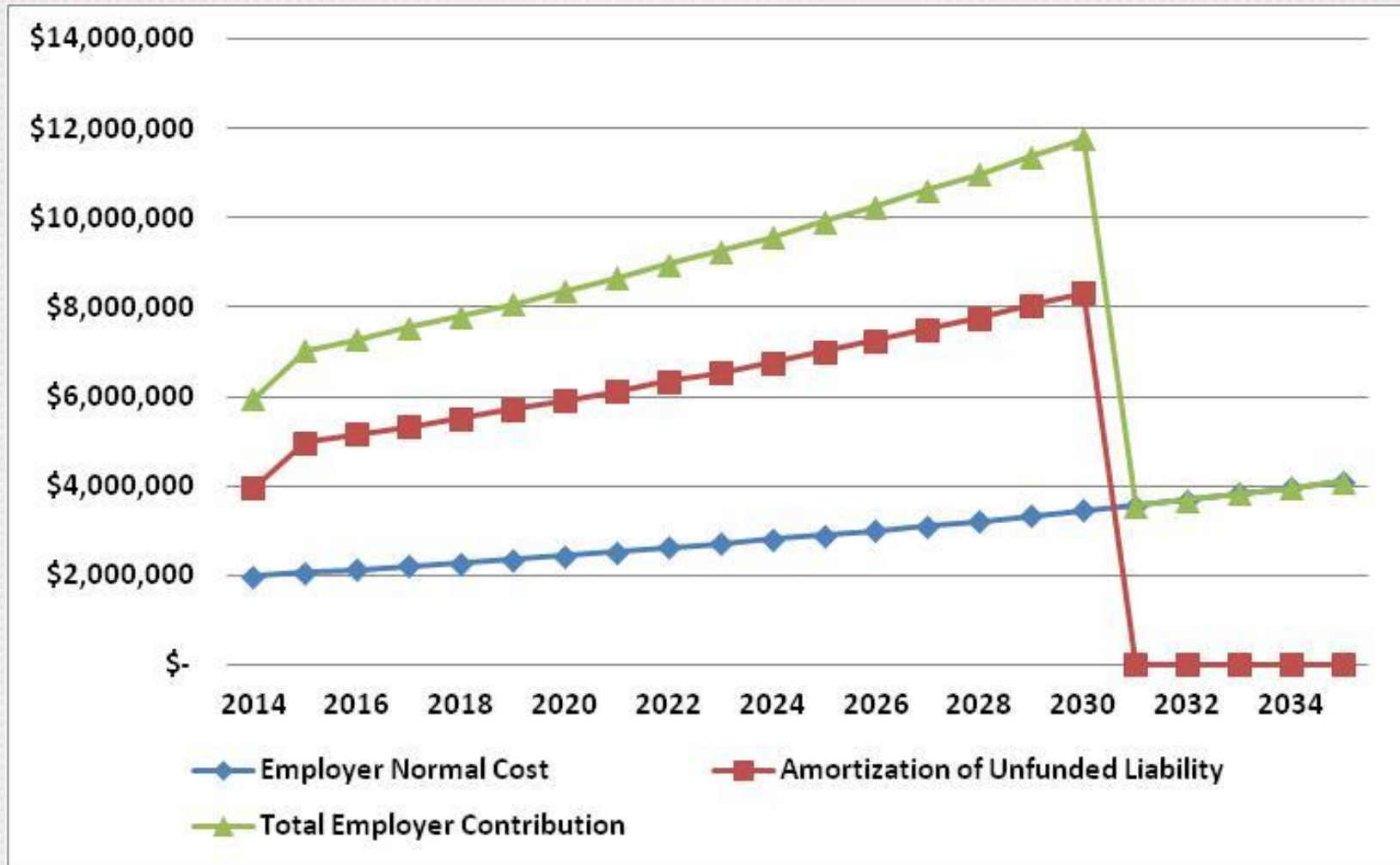
Pension funding – peer comparison

	FY15 Total Budget	FY15 Tax Impact Appropriation	Appropriation as % of Total Budget	Full Funding Date	Valuation Date	Funded Ratio	Assumed Rate of Return
Dedham	\$ 87,910,967	\$ 4,107,233	4.7%	2024	1/1/2014	80.2%	8.00%
Concord	88,762,745	4,001,036	4.5%	2030	1/1/2012	76.7%	7.50%
Belmont	94,868,500	6,355,103	6.7%	2027	1/1/2012	49.9%	7.75%
Winchester	97,611,427	3,889,699	4.0%	2029	1/1/2013	77.4%	7.75%
Natick	127,727,715	7,079,771	5.5%	2030	1/1/2013	61.1%	8.00%
Needham	135,644,289	5,524,150	4.1%	2030	1/1/2012	72.9%	8.00%
Lexington	181,109,226	4,919,154	2.7%	2030	1/1/2012	78.3%	7.75%
Average	\$ 116,233,553	\$ 5,125,164	4.6%			70.9%	
Wellesley	\$ 140,536,089	\$ 5,943,377	4.2%	2030	1/1/2013	67.5%	7.00%

Implications of different full funding dates

Full Funding Date	FY15 Cost Including Enterprise Funds	FY15 Savings	Remaining Amortization	Incremental Amortization Cost	First Year Unfunded Liability is Lower Than Today
2030	\$ 7,040,036		\$ 108,098,537		2016
2035	6,150,837	889,199	127,367,470	19,268,933	2018
2040	5,614,039	1,425,997	150,223,416	42,124,879	2026

Pension funding



Pension planning opportunities

- Reduction of investment risk as we re-approach full funding

Health Insurance

Health insurance background

- Health insurance - mandatory subject of bargaining
 - Plan design, co-pays/deductibles, contribution %
- Procure health insurance through West Suburban Health Group
- Transition to new Rate Saver plans (2009)
 - Market level co-pays
- 2012 State legislation created an easier path

Health insurance cost trend

- Post Rate Saver, Town has experienced lower rates of premium growth
- Has yielded actuarial gains against OPEB valuation assumptions
- WSHG accumulated large surplus (>\$20M)
 - Now diminished as result of rate subsidies
- FY14 – Moved previously grandfathered retirees to Medicare 7/1/13 (if eligible)

Drivers of health insurance cost

- Increasing number of eligible employees
- Plan design
- Premiums
- Contribution rate

Health insurance premiums (family plans)

	Annual <u>Premium</u>	Contribution <u>Rate</u>	Town <u>Share</u>
Harvard Pilgrim	\$ 20,184	79.3%	\$ 16,006
Tufts	23,064	76.8%	17,713
Network Blue	23,808	77.1%	18,356
Fallon	17,796	77.4%	13,774
GIC Benchmark (Tufts Navigator)	\$ 17,971		

Town share of cost – Harvard Pilgrim family plan

	<u>Active</u>	<u>Retiree</u>	
<i>Ashland</i>	<i>75%</i>	<i>50%</i>	<i>Moving to GIC</i>
Dedham	75/80/90%	90%	
Dover	70%	50%	
Holliston	60%	60%	
Natick	76.7%	76.7%	
Needham	69%	69%	
Sherborn	72%	72%	
Shrewsbury	60%	80%	
Walpole	70/80%	80%	
Wayland	69.5%	69.5%	
<i>Westwood</i>	<i>64%</i>	<i>64%</i>	<i>Moving to GIC</i>
Wrentham	75%	75%	
<i>Average</i>	<i>70.5%</i>	<i>69.7%</i>	
Wellesley	79.3%	79.3%	

Health insurance FY15 budget

<u>Plan</u>	<u>Enrollment</u>	<u>Town Cost</u>	<u>Cost per Subscriber</u>
Rate Saver			
Family	617	\$ 9,955,605	\$ 16,136
Individual	486	3,110,920	6,401
Indemnity plans	6	75,816	12,636
Medicare supplement	679	1,726,217	2,542
Enterprise funds		(1,020,000)	
Other		61,780	
		<u>\$ 13,910,338</u>	

Health insurance planning opportunities

- Leverage State legislation (Ch. 32B, Sections 21-23) to change plan design, or transition to GIC
- Payment to employees who opt not to participate in Town's health insurance plans

OPEB

Other Post Employment Benefits “OPEB”

- Town obligated to subsidize portion of health insurance premiums for retirees
- Until FY06, paid current costs on a “pay as you go basis”
- Substantial unfunded liability for benefits earned in prior years

Key 32B elections to date

- Section 9A – 1966
 - Requires Town to pay minimum of 50% of retiree premiums
 - Despite this election, practice has evolved such that Town is paying approx. 80% for retirees who elect to continue in active plans
- Section 9D – 1970
 - Requires Town to pay minimum of 50% of premiums for surviving spouses

Additional elections available

- Section 9E
 - Would enable Town to pay > 50% of retiree premiums
- Section 11C
 - Would enable Town to pay >50% of Medicare Part B premium
- Section 15
 - Would allow creation of Health and Welfare Trust to exercise more discretion re. premium subsidies
- Section 18
 - Would require eligible retirees to enroll in Medicare
 - Does not impact retirees under age 65
- Section 19
 - Would enable Coalition Bargaining

Premium basis for OPEB liability

	<u>Annual Premium</u>	<u>Town Contrib.</u>	<u>Town Cost</u>
<i>Active Plan (pre-Medicare retirees)</i>			
Harvard Pilgrim Family			
Rate Saver	20,184	79.3%	\$ 16,006
<i>Medicare Supplement Plan</i>			
Medex	\$ 3,740		
Medicare Part B	1,259		
	<hr/> 4,998		
Two individuals	x 2		
	<hr/> \$ 9,997	50%	\$ 4,998
	<hr/> <hr/>		

OPEB funding

- Initial actuarial valuations – 1994 & 2001
- Special legislation to create Group Insurance Liability Fund – 2004
- Failed OPEB override – November 2004
- Initiated funding inside the levy – July 2006

OPEB funding, contd.

- Special legislation to fund via Prop 2½ exclusion – March 2007
- Town Meeting & voters approved exclusion - May 2007
 - \$1.8M/year for 10 years (raised total level of funding to \$3M)
- Actions to reduce accrued liability
 - Adopted M.G.L. Ch. 32B Section 18 – April 2006
 - Required eligible retirees to enroll in Medicare
 - Migrated remaining retirees to Rate Saver plans

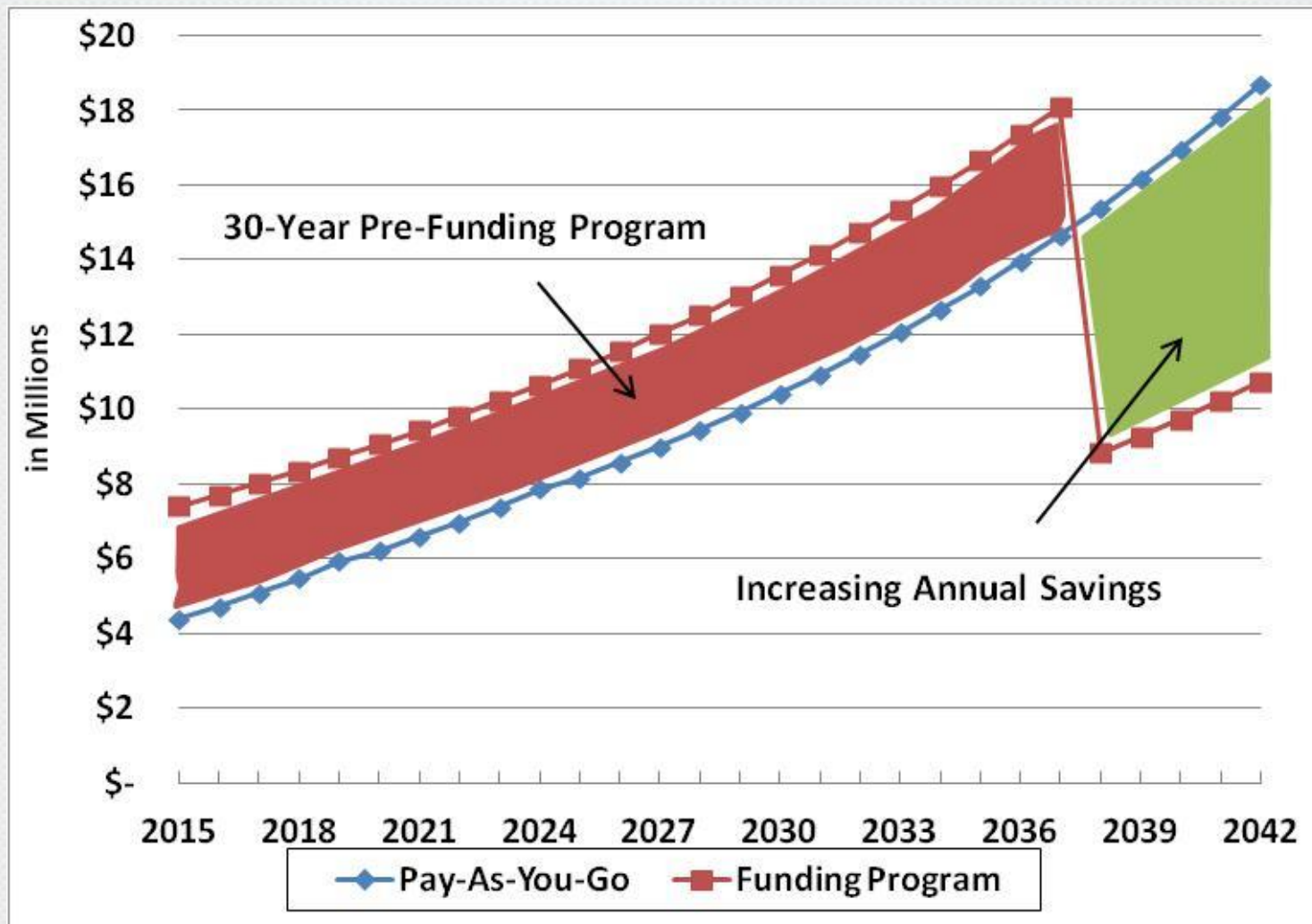
OPEB liability

	<u>6/30/12</u>	<u>6/30/14</u>	<u>B/(W)</u>
Current retirees	\$ 74,733,756	\$ 49,869,889	\$24,863,867
Current actives	52,878,186	61,205,308	(8,327,122)
Total	127,611,942	111,075,197	16,536,745
Assets	21,313,571	32,806,387	11,492,816
Unfunded liability	<u>\$ 106,298,371</u>	<u>\$ 78,268,810</u>	<u>\$28,029,561</u>
ARC	\$ 9,305,607	\$ 8,122,767	\$ 1,182,840
Projected benefit payments	\$ 6,765,601	\$ 4,768,760	\$ 1,996,841

June 2014 OPEB valuation

- Reduction in unfunded liability attributable to:
 - Continued funding progress
 - Premium increases lower than previously assumed
 - Eliminated Legacy Plans and transitioned all eligible retirees to Medicare
- Using more conservative assumptions (consistent with pension)
 - Lowered interest rate to 7%
 - Smoothing 2012/2013 investment gains over 5 years
 - Lowered annual rate of increase in amortization to 3.5%
 - Additional enrollment at retirement

OPEB funding



OPEB funding requirement (tax-impact portion)

<i>(\$ million)</i>	<u>FY15</u>
Normal cost	\$ 2.9
Amortization of past service liability	<u>4.5</u>
Total funding requirement (ARC)	7.4
Less: Projected benefit payments	<u>(4.4)</u>
Additional funding required	<u><u>\$3.0</u></u>

OPEB planning opportunities

- Plan for expiration of \$1.8M funding exclusion
- Reduction of investment risk as we approach full funding
- Phase-down of unfunded liability amortization vs. funding cliff
- Manage implications of potential State reform

Alternatives for dealing with lapsing of funding exclusion

- Seek voter approval of an renewal
- Transition to funding inside the levy
 - Phased in some fashion

Revised funding plan

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
Pension				
- Tax impact	\$ 5,943,378	\$ 6,150,754	\$ 6,365,574	\$ 6,587,912
- Enterprise funds	1,047,249	1,083,850	1,121,704	1,160,883
	<u>\$ 6,990,627</u>	<u>\$ 7,234,604</u>	<u>\$ 7,487,279</u>	<u>\$ 7,748,796</u>
OPEB				
- Pay-as-you-go	4,391,725	4,701,338	5,093,465	5,477,228
- Inside the levy	1,200,000	1,800,000	2,400,000	3,000,000
- Exclusion	1,800,000	1,200,000	600,000	-
	<u>\$ 7,391,725</u>	<u>\$ 7,701,338</u>	<u>\$ 8,093,465</u>	<u>\$ 8,477,228</u>

Quote from 1981 Advisory Report

Although the Advisory Committee recognizes that some of the Town's current budgetary problems could be alleviated if the Town funded only some, or even none, of its current scheduled payment, we believe that good business management requires that the Town continue with its full funding. To skip a year or to fund partially, only increases the total costs over time associated with the present services of current Town employees and puts off the "day of reckoning".

Questions???